

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7575

BILL NUMBER: HB 1523

NOTE PREPARED: Mar 3, 2003

BILL AMENDED: Mar 3, 2003

SUBJECT: Investment Selections.

FIRST AUTHOR: Rep. Dobis

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED:

GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill directs the Board of Trustees of the Public Employees' Retirement Fund (PERF Board) to conduct a pilot program concerning implementation of a member's investment selection and the crediting of a member's contributions and earnings in the Fund for the Defined Contribution Plan of the Legislators' Retirement System. It requires the PERF Board to report the results of the pilot program to the Pension Management Oversight Commission and to produce a schedule to implement the program for all funds for which the PERF Board has responsibility.

Effective Date: (Amended) July 1, 2003.

Explanation of State Expenditures: (Revised) *Summary:* PERF has estimated the cost concerning implementation of a member's investment selection and the crediting of a member's contributions and earnings in the Fund for the Defined Contribution Plan of the Legislators' Retirement System program at \$36,000.

Preliminary Estimate: The estimated value of the Defined Contribution Plan of the Legislators' Retirement System is \$12 M as of February 1, 2003. If 30 basis points are used as a measure of cost, (see the cost for the Deferred Compensation Program below) the cost for the pilot program would be approximately \$36,000. In addition, comments by individuals familiar with record keeping for pension funds have said that some firms would waive the set-up costs just to secure the business.

Background Information: A basis point is a measurement of fluctuation in the current yield equal to 1/100th of 1% on bonds or bills. By way of comparison, the state's Deferred Compensation program pays about 30 basis points, or approximately \$1.5 M based on a \$500 M account value. It should be noted that the difference in the estimated costs has to do with the size of the funds involved and the specific functions to be performed by the record keeper.

Explanation of State Revenues: (Revised) The proposed changes will result in the Fund members receiving

the contributions to their respective accounts earlier than under the current arrangement which credits contributions received on June 30 of each year. The state will have use of these funds for less time. The specific impact will depend upon the amount of contributions and any investment income lost.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund.

Local Agencies Affected:

Information Sources: Mercer Consulting, 312-902-7858; Jeff Heinzmann, Legal Counsel, State Auditor's office. 233-1712; Patricia Gerrick, Chief Investment Officer, Public Employees' Retirement Fund, 234-1678.

Fiscal Analyst: James Sperlik, 317-232-9866.